

Issue Tiering Overview

Internal Revenue Service

Large and Mid-Size Business

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Issue Tiering: Topics

- Rationale Behind Issue Tiering
- Tiers Defined
- Decision-Making Responsibilities
- Rules of Engagement
- Active versus Monitoring Status
- Recent Developments

Issue Tiering: Rationale

Rationale for Issue Tiering

- Issue Tiering is a focused approach which concentrates resources on significant compliance issues.
- Ensures clear and consistent guidance to address issues for responsive tax administration
- Provides focus and flexibility to keep pace with changes in business practices



Issue Tiering: Tier Definitions

Tiers Defined

- Tier I: Significant compliance risk which impacts multiple industries, including all recognized abusive and listed transactions PLUS other “high compliance risk” transactions affecting multiple industries
- Tier II: Potential areas of high non-compliance or significant compliance risk to one or more Industries
- Tier III: Highest compliance risk issues for a particular industry, which require unique treatment within the industry



Issue Tiering: Decision-Making

Decision-making resides at different levels

- When new issues are identified, LMSB Compliance Strategy Council determines suitability for Tiering placement.
- For Tier I & II issues, an Issue Management Team (IMT) determines the strategy for identification, development and resolution of the issue.
- Guidance should provide revenue agents greatest latitude for case-specific decisions while ensuring consistent interpretation and approach.

Issue Tiering: Rules of Engagement

- Normal Rules of Engagement should be followed when a taxpayer wishes to elevate an case-specific issue to upper management.
- In other instances, stakeholders may wish to discuss general information, guidance or questions with the Issue Owner Executive.
 - Such discussions should not be case-specific
 - Goal is transparency and consideration of relevant facts



Issue Tiering: Changes in Status

“Active” versus “Monitoring” status

- Issues that are being researched and developed are considered “active.”
- Monitoring happens when universe of returns has been identified, legal analysis has been completed, guidance and tools have been developed and shared with the field.
- Issues are never de-tiered or demoted. They may be moved to “Monitoring” status in their original tier.



Issue Tiering: Recent Developments

Issues recently moved to Monitoring status:

- Backdated Stock Options
- Government Settlements

Issues moving soon to Monitoring status:

- Mixed Service Cost
- Phase I Universal Service Fund under IRC Section 118

Ten Tier III issues identified

For more information, search “Tiered Issues” on
irs.gov or visit:

<http://www.irs.gov/businesses/article/0,,id=180721,00.html>